



# WEEKLY ECONOMIC DIGEST

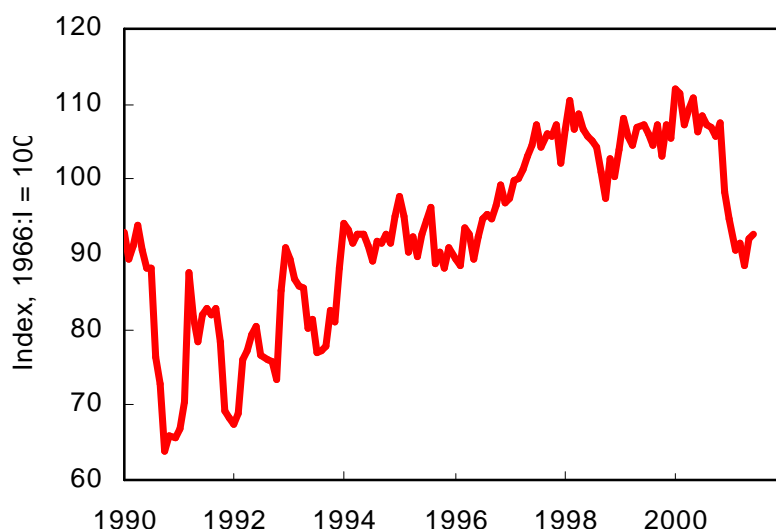
JOINT ECONOMIC COMMITTEE—DEMOCRATIC STAFF  
SENATOR JACK REED (RI)



July 3, 2001

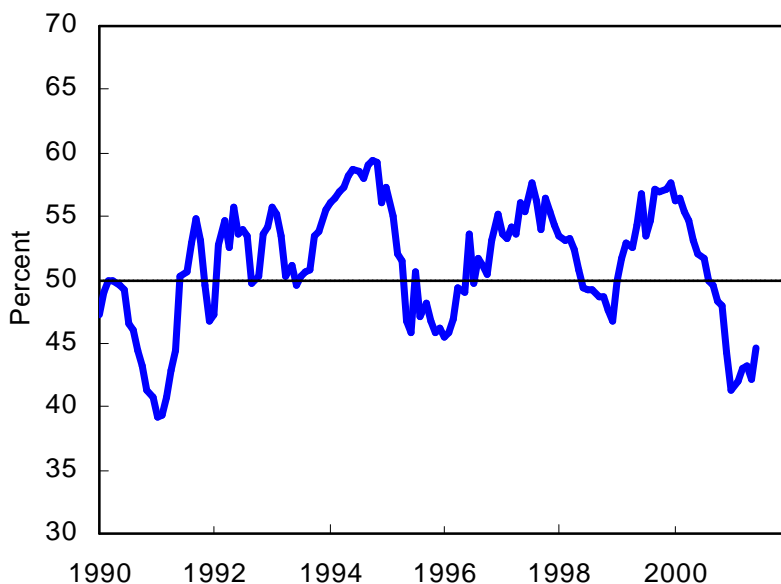
## Citing the Weak Economy, the Federal Reserve Lowers Rates

Index of Consumer Sentiment



Source: University of Michigan.

NAPM Composite Index for Manufacturing



Source: National Association of Purchasing Managers.

- ***The Federal Reserve cut rates by a quarter of a percentage point.*** The Federal Open Market Committee (FOMC) lowered its target for the federal funds rate last week for the sixth time in six months. Analysts had been about evenly divided between a quarter-point and a half-point cut. While opting for the smaller cut, the FOMC reiterated its concern that economic growth could worsen over the near term.
- ***Consumer sentiment inched up.*** In late June, the University of Michigan Index of Consumer Sentiment rose slightly, though it remained well below year-ago levels. That rise stemmed exclusively from increased optimism for the near term among households with incomes exceeding \$50,000 a year. By contrast, consumers took a dimmer view of the long-term outlook than they did a month earlier.
- ***Household spending grew slowly.*** After adjustment for inflation, personal consumption spending rose 0.3 percent in May, outpacing a 0.1 percent increase in disposable personal income. The pace of growth in consumption has receded significantly from that of last year.
- ***Manufacturing may be showing some faint signs of life.*** New factory orders for nondefense capital goods excluding aircraft rose 0.3 percent in May, although they were still more than 11 percent below year-ago levels. Almost none of the pickup occurred in the beleaguered high-tech sector. On the other hand, the June results of the widely scrutinized NAPM survey may presage a slowing in the rate of contraction within manufacturing. Hard data for June, however, are still weeks away.

ECONOMY AT A GLANCE	May	Apr	Mar	Feb	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000 Qtr 2	2000	1999
<b>Economic Activity</b>										
Real GDP (% growth)					1.2	1.0	2.2	5.6	5.0	4.2
Industrial Production (% growth)	-9.2	-7.0	-2.4	-4.7	-6.7	-0.9	3.5	7.9	5.6	4.2
Capacity Utilization(Level, %)	77.4	78.2	78.8	79.2	79.2	81.3	82.4	82.6	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.4	4.5	4.3	4.2	4.2	4.0	4.0	4.0	4.0	4.2
Housing Starts (Thousands)	1622	1629	1592	1623	1627	1539	1505	1586	1575	1647
Real Disposable Personal Income (% growth)	1.2	0	4.9	4.9	2.2	0.7	2.6	3.7	2.8	3.2
Retail Sales (% growth)	0.9	18.0	-4.7	0.8	5.2	0.5	4.6	1.4	7.6	9.1
Personal Saving Rate (Level, %)	-1.3	-1.0	-0.8	-1.0	-1.0	-0.7	-0.2	0.3	-0.1	2.2
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)	4.9	3.7	1.2	3.7	4.1	2.9	3.5	3.0	3.4	2.2
Core CPI-U Inflation (% growth)	1.2	2.4	2.4	3.7	3.2	2.4	2.5	2.7	2.4	2.1
Compensation per Hour (% growth)					4.6	3.5	3.8	4.2	4.3	3.2
Output per Hour (% growth)					-1.2	2.0	3.0	6.3	4.3	2.6
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	3.6	3.9	4.4	4.9	4.8	6.0	6.0	5.7	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.4	5.1	4.9	5.1	5.1	5.6	5.9	6.2	6.0	5.6
Federal Funds Rate (Level, %)	4.2	4.8	5.3	5.5	5.6	6.5	6.5	6.3	6.2	5.0
Dow Jones Industrial Avg (Index Level)	11105	10235	10081	10775	10513	10586	10882	10703	10735	10465
Sources:	Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.									
Notes:	Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.									

**Major Economic News Due This Week:**

- Vehicle Sales, June [Release: Thursday, July 5, 2001]
- The Employment Situation, June [Release: Friday, July 6, 2001]